

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 IGA-01

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R 011907Z JUL 75

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 490

INFO AMEMBASSY BRAZILIA

AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMCONSUL GUAYAQUIL

AMEMBASSY MANAGUA

AMEMBASSY PANAMA JSEQQ

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

C O N F I D E N T I A L TEGUCIGALPA 2801

E.O. 11652: GDS

TAGS: PINT, HO

SUBJECT: BANANAS: BANANA COMMISSION REPORT IN FINAL REVISION

WITH PARTICIPANTS OF COMMISSION.

SUMMARY: REPORT IS DUE TO BE PRESENTED TO CHIEF OF STATE
MELGAR EARLY NEXT WEEK. POSITION TAKEN BY CONSEJO
HONDURENO DE LA EMPRESA PRIVADA (COHEP) HAS CREATED A MAJOR PROBLEM
WITHIN THE ORGANIZATION. COHEP POSITION USED UNFORTUNATE
TERMINOLOGY AND IS SUBJECT TO MISINTERPRETATION. VARIOUS
SOURCES INDICATE THAT COMMISSION REPORT WILL NOT BE ANTAGO-
NISTIC TOWARD FOREIGN FRUIT COMPANY SUBSIDIARIES IN HONDURAS.
NO ACTION REQUEST. END SUMMARY.

1. A DIVISION AMONG COEHP MEMBERS RESULTED FROM THE OFFICIAL
POSITION TAKEN BY THE ORGANIZATION IN THE BANANA COMMISSION
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WHOSE REPORT IS DUE ON THE DESK OF THE CHIEF OF STATE

JULY 6. THE COHEP POSITION USES IN ITS TITLE THE WORD "NATIONALIZATION" AND RECOMMENDS THIS COURSE AS THE MOST VIABLE UNDER PRESENT CIRCUMSTANCES. NATIONALIZATION IS AN INACCURATE TERM ACCORDING TO DRAFTERS OF THE PAPER CONSULTED BY THE EMBASSY. THEY STATE THAT THE PAPER AS A WHOLE MAKES CLEAR NATIONALIZATION REFERS TO HONDURAN PRIVATE SECTOR PARTICIPATION IN THE BANANA OPERATIONS OF THE TWO COMPANIES. IT IS A MEASURE POSED SOLELY TO AVOID A CHOICE BETWEEN RENEWAL OF CONCESSIONS WHICH COHEP CONSIDERS AS POLITICALLY IMPOSSIBLE, AND ON THE OTHER HAND, EXPROPRIATION BY THE GOVERNMENT THROUGH THE AGRARIAN REFORM PROGRAM. THE COHEP LEADERSHIP WISHED TO PROVIDE AN ALTERNATIVE COURSE WHICH WOULD BE THE PARTICIPATION OF THE HONDURAN PRIVATE SECTOR IN THE OPERATION OF THE TELA RAILROAD COMPANY (UNITED FRUIT) AND THE STANDARD FRUIT COMPANY (CASTLE AND COOKE). THE COHEP POSITION DOES NOT OUTLINE THE MANNER BY WHICH HONDURAN PRIVATE PARTICIPATION WOULD BE OBTAINED, MERELY THAT IT WOULD BE PREFERABLE TO THE TWO COURSES MENTIONED ABOVE.

2. AN INTERNAL BATTLE DEVELOPED WITHIN COHEP WHEN THE NORTH COAST AFFILIATED MEMBERS TOOK EXCEPTION TO THE ORGANIZATION'S POSITION. IT IS NOT YET CLEAR WHETHER THIS DIVISION OF VIEWPOINTS WILL RESULT IN A BREACH SO GRAVE AS TO REPEAT THE 1972 STRUGGLE WHICH COMPLETELY DEBILITATED COHEP FOR TWO YEARS.

3. A DRAFTER OF THE COHEP POSITION STATED THAT IT HAD BEEN REVIEWED WITH A "STANDARD FRUIT VICE PRESIDENT" WHO STATED HE WAS WILLING TO LOOK AT ANY SUGGESTION THAT MADE ECONOMIC SENSE. ACCORDING TO COHEP THE COMPANIES WOULD HAVE A BETTER COST STRUCTURE UNDER PRESENT LAWS THAN UNDER THE EXISTING CONCESSIONS, QUITE APART FROM CONSIDERING THE POLITICAL DISADVANTAGES OF CONCESSIONS.

4. CONCERNING THE BROADER ELEMENTS OF THE REPORT, A FINAL REVISION IS BEING SUBMITTED TO THE BANANA COMMISSION MEMBERS THIS WEEK. SEVERAL OF THESE MEMBERS INDICATED TO EMBASSY OFFICERS THAT NO DRASTIC RECOMMENDATIONS TO THE CHIEF OF STATE WILL BE FORTHCOMING. ADDITIONALLY, THE MANAGER OF THE TELA RAILROAD ADVISED AN EMBASSY OFFICER THAT HE HAD BEEN CONFIDENTIAL

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GIVEN, ON TWO OCCASIONS, ASSURANCES BY CHIEF OF STATE MELGAR THAT HONDURAS RECOGNIZES THE IMPORTANCE OF THE PRESENCE OF THE TWO COMPANIES AND THAT NOTHING DRASTIC SHOULD BE EXPECTED. NONETHELESS, THE COMPANY (ALSO WITH AN EYE ON THE AGRARIAN REFORM LAW) IS KEEPING IN ABEYANCE PLANS FOR EXTENSIVE BANANA REPLANTING WITH CAPITAL EXPENDITURE COSTS OF \$4 TO \$5 MILLION. ONE MEMBER OF THE COMMISSION, THE ATTORNEY GENERAL, SUBMITTED A PAPER CITING THE ILLEGALITY OF THE

ORIGINAL CONCESSIONS AND CLAIMING BACK TAXES OF \$300 MILLION.

5. COMMENT: THE COHEP DRAFTERS STATE THEIR PRIMARY OBJECTIVE IS TO PEN AN ALTERNATIVE TO THE AGRARIAN REFORM TAKEOVER WHICH HAS ALREADY OCCURRED AT ISLETA, WHICH ALTERNATIVE COULD BE APPLIED TO THE TELA RAILROAD CONCESSION THAT INCLUDES MOST OF THE UNITED BRANDS LAND EAST OF THE ULUA RIVER IN THE SULA VALLEY. HOWEVER, THIS PROPERTY, VALUED BY THE COMPANY AT \$12.5 MILLION, WOULD CONSTITUTE A MAJOR CAPITAL EXPENDITURE WHICH WOULD BE BEYOND THE CAPABILITY OF THE HONDURAN PRIVATE SECTOR ACTING ALONE. A PURCHASE WOULD REQUIRE EXTENDED TERMS OF PAYMENT AND PROBABLY GOVERNMENT MONEY THROUGH THE DEVELOPMENT CORPORATION (CONADI). THE NORTH COAST COHEP SPOKESMEN SEEM TO FEEL THAT A RENEWAL IN SOME FORM OF THE TELA RAILROAD CONCESSION IS STILL A POLITICAL POSSIBILITY ESPECIALLY SINCE THE TELA RAILROAD BANANA WORKERS UNION SUPPORTS THE CONTINUANCE OF THE COMPANY IN HONDURAS. IT APPEARS THAT PRECIPITATE ACTION ON THE PART OF THE GOVERNMENT IS UNLIKELY BUT THE FORM OF ACCOMMODATION TO CONDITIONS IS AS YET UNCLEAR.

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